

# Is art really a criminal enterprise?

What lurks behind dizzying prices, secrecy?

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The art market with its auction seasons has become something like fashion with its celebrity runway weeks, an insiders' game with a growing, almost sporting, appeal to outsiders.

Last week, an auction at Christie's delivered a new record price, \$142 million for a triptych portrait of the artist Lucian Freud by the artist Francis Bacon, and Sotheby's drummed up more than \$100 million for a 1960s Andy Warhol piece.

Most of the hyperventilating commentary has been about the exorbitation of those prices and the incredibility of the people who can pay them. To a lesser extent, some critics sought to rally around the troubling issues of reconciling great art with the distortion of so much dough. (The auctions, said *The New York Times* censoriously, "are a kind of fiction that has almost nothing to do with anything real.")

But hardly anybody was willing or able to explain the actual process of creating a astronomical value where otherwise none might exist, and how, over many years, prices with no underlying logic have not only been sustained but have inevitably headed

transaction is listed as \$5 million. You put it in a warehouse for two years, let it predictably appreciate, and then sell it for \$9 million. You've not only made \$2 million, but you've cleaned another \$2 million. Nobody is the wiser.

Art, too, is a market that can be handily manipulated in a way that is probably more beautiful than art itself to financial fixers. If you own, for instance, five Warhols, you might put one up for auction, participate yourself in bidding up the price — you might even buy it yourself at a high price — thereby increasing the value of your other four paintings (which now you can borrow against at their higher valuation).

A notable anomaly in the market is that old masters, with their limited supply, are now in less demand and are often priced more modestly than new artists, with unlimited supply. That defies economic logic — yet it can be explained. Living artists print money. If you are a big buyer who helps set prices, you might be offered work at a goodly increase over an artist's last price point: \$2 million, where the last sale was at \$1 million. For that, you get one thrown in free, hence the deal has cost you nothing but doubled the value for everybody else who holds the works, including the artist — leaving everybody happy.

Because there are few widows and orphans in the art market, there appears to be little need or public outcry to fix the system. Who is hurt? Nobody but artists who fail to willingly or adroitly play the game. And, perhaps, the culture itself, surrendering art to drug lords, oligarchs, money launderers and international vulgarians, and forcing the rest of us to admire what we might, given more rational values, disdain.



Last week's auction of Francis Bacon's *Three Studies of Lucian Freud* pulled in a record \$142 million.

Companies and, using a variety of market strategies, moves up the price and then sells his stake — the basic model for high-end art dealing. Steven Cohen, one of the world's leading art buyers, runs an investment firm, SAC Capital, that pleaded guilty last week in the largest insider trading case in history. Cohen, who personally paid a fine of \$1.8 billion, was a significant seller in last week's auctions, putting \$88 million worth of art on the block.

The fact that financial trading is the business of so many new collectors, and that the international art market now provides a viable and ever more liquid alternative currency, one that is almost entirely unregulated, ought to suggest a reason for their interest. But curiously, Cohen and Loeb tend to be most often cast as victims of the art world, seduced by its status and social benefits, rather than predators in it.

Art is, too, a business of finance. Many of the most prominent figures at the auctions are men whose primary interest is not art, or the art market, but financial markets. This includes Dan Loeb, the billionaire corporate raider who buys stakes in

A distinguishing feature of a big art auction is the extraordinary measures many bidders take to hide their identities. In a world where the rich most often want to proclaim themselves ever more loudly, in which art itself is supposed to be of value precisely because it identifies you as both rich and cultured, neither the sellers nor the buyers of the Bacon and Warhol works were revealed. Why?

Not unlikely for all the reasons it is better that people don't know you've just moved an indecent amount of money.

Art has become an efficient instrument for hiding cash. Swiss banks are no longer a very private place. But a warehouse in Switzerland — or, for that matter, New Jersey — is nicely confidential.

And art is a way to clean up your dirty wealth. Say you sell, well, drugs. You might buy a painting for \$7 million, paying \$2 million in cash (helping the seller avoid taxes), so the